

STATE OF MAINE

PUBLIC UTILITIES COMMISSION

In the Matter of Emera Maine, Maine Electric
Company, and Chester SVC Partnership
Request for Approval of Reorganization
Pursuant to 35-A M.R.S.

Docket No. 2019-00097

REDACTED TESTIMONY AND EXHIBITS OF

DAVID BREVITZ, C.F.A.

ON BEHALF OF THE

OFFICE OF THE PUBLIC ADVOCATE

Contains Information Provided Pursuant to

Protective Order 2, Protective Order 5 and Protective Order 6

September 10, 2019

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Introduction

Q. Please state your name and address.

A. My name is David Brevitz, and my business address is Brevitz Consulting Services, 5804 W. 124th Street, Overland Park, Kansas 66209.

Q. Please state your experience and qualifications.

A. I serve as an independent regulatory consultant with decades of experience in national regulation of public utilities, state regulation of public utilities, regulatory policy at the state commission level, determination of just, reasonable and non-discriminatory rates, and determination of revenue requirements in regulatory proceedings. I have significant experience in a wide variety of utility regulatory matters including financial, industry and technical analysis of proposed mergers and acquisitions, competition policy and economic analysis, broadband internet access, cost allocations and revenue requirements, financial, technical and industry analysis of utility mergers and acquisitions, and service quality metrics and measurements. My consulting practice focuses on technical assistance to state utility commissions, consumer advocate offices and organizations, state attorneys general offices, and national telecommunications regulatory bodies.

While at Michigan State University, I studied at the Institute of Public Utilities and earned an undergraduate degree in Justice, Morality and Constitutional Democracy from James Madison College (a residential college at MSU) and an MBA in Finance from the Michigan State University School of Business.

I have analyzed the financial and strategic components of numerous proposed spin-offs, acquisitions and mergers of public utilities, beginning with Divestiture of the Bell Operating Companies from AT&T, and more recently including the Sprint spin-

1 off of Embarq in 2005, the Alltel spin-off of Windstream in 2006, the Verizon
2 Northern New England reverse Morris trust transaction with FairPoint in 2007, the
3 Embarq merger with CenturyLink in 2008, Verizon's sale of its properties in
4 California, Florida and Texas to Frontier Communications, and the Consolidated
5 Communications acquisition of FairPoint Communications. Most recently I assisted
6 the Office of the Public Advocate in addressing the two cases regarding acquisition
7 of Maine Water Company by SJW Group. I served as the Maine Office of Public
8 Advocate's financial and policy witness in the FairPoint acquisition case (Docket No.
9 2007-67) and I continued to serve the Public Advocate in subsequent FairPoint
10 matters including monitoring FairPoint's compliance with conditions subsequent to
11 the Commission's conditional approval of the acquisition of Verizon's Northern
12 New England operations, participation in the FairPoint bankruptcy case, addressing
13 quality of service problems, and addressing FairPoint's \$67 million request for Maine
14 Universal Service Fund support. I also served as the New Hampshire Office of
15 Consumer Advocate's financial and policy witness in the FairPoint acquisition case
16 (DT 07-011) in New Hampshire. I have provided financial and technical analyses in
17 other cases including the Gas Natural Inc./Bangor Natural Gas reorganization and
18 refinancing in MPUC Docket No. 2016-00030; and the Gas Natural Inc./First
19 Reserve Merger in MPUC Docket No. 2016-00282. In addition, I assisted the
20 Kentucky Attorney General's Office of Rate Intervention in two rate cases caused by
21 the departure of two aluminum smelters from service by Big Rivers Electric
22 Corporation (BREC). These departures comprised a loss of 70 percent of BREC's
23 load. In these cases, I addressed BREC's debt leverage, BREC's Corrective Plan with
24 the Rural Utilities Service (RUS), BREC's Load Concentration and Mitigation Plan,
25 BREC's financial projections, and BREC's mission.

26 As a result of these assignments, I have current expertise regarding utility regulation
27 and proposed mergers and acquisitions of utility companies. A more detailed

1 description of my background and experience in utility regulation is provided on
2 Exhibit DB-1.

3 **Q. Do you have other professional qualifications?**

4 A. Yes. In 1984 I was designated as a Chartered Financial Analyst by the Institute of
5 Chartered Financial Analysts (“ICFA”), which later became the CFA Institute. The
6 CFA Institute has defined and organized the body of knowledge for financial analysts
7 as including ethical and professional standards, accounting, statistics and analysis,
8 economics, fixed income securities, equity securities, and portfolio management.

9 I have been designated as a Senior Fellow by the Public Utility Research Center at the
10 University of Florida. This designation is reserved for knowledgeable and
11 experienced professionals who foster strong ties to academia, industry, and
12 government, who embody PURC's values of respect, integrity, effectiveness and
13 expertise, and who support PURC’s mission to contribute to the development and
14 availability of efficient utility services through research, education, and service. I am
15 a regular lecturer at PURC’s semi-annual Utility Regulation and Strategy Training
16 Programs at the University of Florida. These international training programs are a
17 collaboration between PURC and the World Bank to provide comprehensive training
18 in utility practices for commissioners and staff of national utility regulatory agencies
19 across the world.

20 **Q. What is the purpose of your direct testimony?**

21 A. I am testifying on behalf of the Maine Office of the Public Advocate (OPA) to
22 address the valuation, financial and strategic considerations associated with the
23 proposed transaction. Together with Larry Holloway I will address the extent to
24 which the Joint Applicants have demonstrated the proposed sale transaction provides
25 “net benefits” to Emera Maine ratepayers.

The Proposed Transaction

Q. Please describe the companies that are seeking approval of the proposed transaction.

A. Emera Maine is the second largest electric transmission and distribution company in Maine. Emera Maine was formed by the acquisition of two districts, which have been merged from a corporate organizational standpoint (in 2014) – Bangor Hydro District (formerly the Bangor Hydro Electric Company, acquired by Emera in 2001) and the Maine Public District (formerly the Maine Public Service company, acquired by Emera in 2010). Emera Maine is held by Emera Inc. through a series of intermediate entities or holding companies. Emera Maine itself also holds several affiliated entities some of which are inactive¹:

- Maine Electric Power Company (MEPCO) owns and operates transmission facilities under its FERC Open Access Transmission Tariff. Emera Maine owns 21.7 percent voting interest while Central Maine Power owns the remaining (majority) voting interest.²
- Bangor Line Company “was an engineering services company that is now inactive.”³
- Bangor Fiber Company “owns fiber assets for use of relay control and communication for the Transmission Infrastructure as well as providing multi strand fiber to communication carriers and cable service providers”⁴ which generates revenue through lease agreements.
- Bangor Var Co., Inc. holds Emera Maine’s 50 percent interest in Chester SVC Partnership.⁵
- Chester SVC Partnership owns a facility providing transmission system reinforcement in a 50/50 partnership with Central Maine Power.⁶

¹ Joint Petition for Approval of Reorganization, filed May 7, 2019 before the Maine Public Utilities Commission, Docket No. 2019-00097 (“Joint Petition”), Exhibit 2, Pre-Transaction Organization Chart.

² Joint Petition at paragraph 6.

³ Emera Response to OPA 2-5.

⁴ Emera Response to OPA 2-4.

⁵ Emera Response to OPA 2-1.

⁶ Joint Petition at paragraph 7.

- 1 • East Branch Improvement Company is a water storage company that has been
2 inactive for five years.⁷
- 3 • The Pleasant River Gulf Improvement Company is a water storage company
4 that has been inactive since 1999.⁸
- 5 • 12 percent of the voting shares of Maine Yankee Atomic Power Company,
6 which is no longer a public utility subject to the jurisdiction of the
7 Commission.⁹

8 **ENMAX Corporation** owns and operates several subsidiaries in the province of
9 Alberta and has provided electric services to customers in the Calgary area for “more
10 than 110 years.”¹⁰ The ENMAX subsidiaries consist of the ENMAX Power
11 Corporation, which provides transmission and distribution service to consumers
12 within Calgary on a rate-regulated basis; the ENMAX Energy Corporation, which
13 offers competitive and Regulated Rate Option service and competitive natural gas
14 products and services to consumers; ENMAX Encompass Inc., which provides
15 billing and customer care services for residential/small business customers of
16 ENMAX; and ENMAX Power Services Corporation, which provides competitive
17 engineering, and construction and maintenance services along with other services.¹¹

18 ENMAX’s regulated transmission and distribution subsidiary delivers electricity
19 to approximately 1.3 million people living in its Calgary service area. Through
20 its competitive energy subsidiary, ENMAX owns and operates a fleet of
21 Alberta-based wind, natural gas, district energy and combined heat and power
22 generation facilities, and serves as Alberta’s largest retailer of electricity, offering
23 a range of innovative energy solutions to over 667,000 residential, commercial
24 and industrial customers. ENMAX is also Alberta’s leader in solar energy
25 solutions, having installed approximately 50% of retail grid-connected solar
26 facilities in Alberta.¹²

⁷ Emera Response to OPA 2-3.

⁸ Emera Response to OPA 2-2.

⁹ Joint Petition, footnote 8.

¹⁰ Joint Petition at paragraph 3.

¹¹ Manes Direct at pages 11-12.

¹² Joint Petition at paragraph 4. Further description of ENMAX is provided at page 6 of the Manes Direct Testimony.

1 ENMAX Corporation has a single shareholder – the City of Calgary. As such it is
2 not a publicly listed company but “ENMAX’s public disclosures are informed by the
3 requirements applicable to publicly listed companies.”¹³

4 **Q. Please describe the high-level strategic considerations underlying the**
5 **proposed sale transaction.**

6 A. Emera Inc. “is a geographically diverse energy and services company,”¹⁴ which
7 operates subsidiaries including Nova Scotia Power, Emera Newfoundland &
8 Labrador, Emera New Brunswick, Emera Caribbean (Grand Bahama Power,
9 Dominica Electricity Services, and Barbados Light and Power), Tampa Electric, New
10 Mexico Gas, Peoples Gas (Florida), Emera Energy and Emera Energy Services.
11 Emera has several strategic initiatives including “investing in clean/cleaner generation
12 to reduce the carbon intensity of our operations”¹⁵ and therefore has “major clean
13 energy initiatives” requiring investment such as hydro renewal in Nova Scotia and
14 solar and coal-to-gas projects in Florida.¹⁶ Emera has a “funding plan,” which is
15 designed to reduce debt levels, “transitioning the capital structure” from 64 percent
16 debt at September 30, 2016 to a 2020 target of 55 percent.¹⁷ Emera plans “\$6
17 billion+ in capital investment to drive growth through 2020.”¹⁸ Emera plans to focus
18 on internal sources of capital including “select asset sales” (for 20-30 percent of
19 funding needs), which are “expected to materially reduce or potentially eliminate
20 common equity requirements.”¹⁹ Emera has a number of challenges in “delivering
21 solid financial results” and accordingly is “developing and executing on a funding
22 plan to minimize the need for new equity to finance our strong organic growth, and

¹³ Manes Direct at page 19, line 7.

¹⁴ Hanf Direct Testimony on behalf of Emera Maine, page 4, line 22.

¹⁵ Emera Investor Presentation, July 2019, at page 6.

¹⁶ *Ibid.* at page 13.

¹⁷ Emera Investor Presentation, November 2018, at page 13.

¹⁸ *Ibid.* at page 3.

¹⁹ *Ibid.* at page 14.

mapping out a \$6.5 billion growth plan over the next three years.”²⁰ Emera views its subsidiary holdings from a portfolio perspective.

In 2018, we also began our work on optimizing our portfolio to best position us for future growth. In November, we announced the sale of our natural gas generating facilities in New England for \$590 million USD. We are advancing our portfolio evaluation, and we expect this work to be complete by the end of 2019.²¹

Emera’s proposed sale of Emera Maine is another “optimization” of Emera’s “portfolio” to generate cash for use for reducing debt and capital investment in other subsidiaries. These two asset sales are projected to generate sale proceeds totaling \$2.1 billion CAD for Emera’s funding plan. This is intended to be part of the funding for Emera’s \$6.5 billion capital investment plan.²²

Capital Forecast by Affiliate

Capital Forecast (CAD millions) ⁽¹⁾	2019F	2020F	2021F	Total
Tampa Electric	\$ 1,320	950	985	3,255
Peoples Gas	310	345	305	960
New Mexico Gas Company	100	190	135	425
Seacoast	60	65	55	180
Nova Scotia Power	355	325	345	1,025
Emera Maine	90	-	-	90
Emera Caribbean	155	70	65	293
Emera Newfoundland	25	-	190	215
Other	50	10	5	65
Subtotal – Baseline Capital Forecast	\$ 2,465	1,955	2,085	6,505
Add: Opportunities Under Development	-	190	1,130	1,320
Total Capital Forecast	2,465	2,145	3,215	7,825

⁽¹⁾ US dollar denominated capex is translated at a forecasted average USD/CAD exchange rate of 1.30 in 2019-2021



²⁰ 2018 Emera Annual Report, Letter from the CEO, at page 8.

²¹ *Ibid.* at page 9.

²² Emera Investor Presentation, July 2019, at page 30. Note the Emera Maine CAD\$90 million forecast for 2019 (approx. USD\$67m).

Emera’s rate base forecast shows the relative emphasis on Florida (Tampa Electric and People’s Gas and Canada (Nova Scotia Power in particular)²³

Rate Base Forecast by Affiliate

Rate Base (CAD millions) ⁽¹⁾		2018A	2019F	2020F	2021F	2018-2021 CAGR
Tampa Electric ⁽²⁾	\$	8,300	9,200	9,925	10,550	8.3%
Peoples Gas ⁽²⁾		1,250	1,475	1,700	1,900	15.0%
New Mexico Gas Company		725	750	850	925	8.5%
Nova Scotia Power		3,775	3,950	4,200	4,350	4.8%
Emera Maine		925	925	-	-	n.a
Emera Caribbean		800	925	925	925	5.0%
Maritime Link ⁽³⁾		1,800	1,800	1,800	1,750	-0.9%
Labrador Island Link ⁽⁴⁾		1,150	1,225	1,575	1,875	17.7%
Total	\$	18,725	20,250	20,975	22,275	6.0%

⁽¹⁾ Average rate base. US dollar denominated rate base is translated at an actual average rate of 1.30 in 2018 and a forecasted average USD/CAD exchange rate of 1.30 in 2019-2021.

⁽²⁾ Capital structures that support the rate base include deferred tax liabilities (DTL). DTL is a zero cost-of-capital component of the capital structure in Florida. The 2018 capital structures included \$1,700 million at Tampa Electric and \$240 million at Peoples Gas.

⁽³⁾ Maritime Link begins to depreciate in 2020 when Muskrat Falls is fully operational

⁽⁴⁾ Implied rate base based on a 45% equity thickness.

33



Emera Maine clearly does not figure into the Emera Inc. future. The proceeds from sale of Emera Maine are intended “to be used to fund ongoing rate base initiatives and repay holding company debt.”²⁴

ENMAX established its “current strategy to develop a diverse business with *strong regulated and contracted cash flows* and a diversity of revenue streams within North America” in 2017.²⁵ “To execute this strategy, we seek to grow our business through the expansion of our regulated utility business in North America ... Working with our Board, ENMAX established a set of criteria for *potential acquisitions for regulated utility assets*. Emera Maine meets these criteria.”²⁶ ENMAX currently earns substantial revenues from competitive energy markets, which are relatively more than revenues

²³ *Ibid.* at page 33.

²⁴ *Ibid.* at page 34.

²⁵ Manes Direct Testimony on behalf of ENMAX, at page 14, line 10, *emphasis added*. (“Manes Direct”)

²⁶ *Ibid.* at line 17, *emphasis added*.

1 earned from regulated utility operations, e.g., \$1.567 million from competitive energy
2 in 2018 vs. \$939 million from its regulated operating segment (Canadian dollars).²⁷

3 ENMAX is seeking additional regulated revenues and cash flows in pursuit of higher
4 and more predictable returns from rate-base regulated operations. As stated by

5 ENMAX, [BEGIN PO5 CONFIDENTIAL] [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED] [END PO5

10 CONFIDENTIAL]²⁸ Also as stated by ENMAX, [BEGIN PO5

11 CONFIDENTIAL] [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED] [END PO5 CONFIDENTIAL]²⁹

15 In this regard the ENMAX strategy appears to be similar to those of other Canadian
16 electric companies that have acquired electric companies in the U.S. In recent years
17 Fortis Inc.³⁰ acquired ITC Holdings Corporation and Algonquin Power & Utilities
18 Corporation acquired Empire District Electric Company. The strategic rationale for
19 Fortis's acquisition of ITC includes increased diversification, higher returns under
20 FERC regulation, and "long-term rate base growth prospects."³¹ The strategic
21 rationale for Algonquin's acquisition of Empire District includes increased diversity
22 which also increases the contribution to earnings by regulated operations from 51

²⁷ ENMAX 2018 Financial Report, Consolidated Financial Statements, at page 55.

²⁸ ENMAX Response to OPA 1-23, Attachment 2 Part 2 of 4, at page 23. *Emphasis added.*

²⁹ ENMAX Response to OPA 1-23, Attachment 2 Part 2 of 4, at page 36.

³⁰ Fortis, Inc. was formed in 1987 by shareholders of Newfoundland Light & Power Company to provide for further electric utility investments. Early acquisitions in Canada were followed by further acquisitions in the Caribbean and the provinces of Alberta and British Columbia (from Aquila). Acquisitions in the U.S. began in 2012.

<https://www.fortisinc.com/about-us/about-us#profile>

³¹ <https://www.prnewswire.com/news-releases/fortis-inc-to-acquire-itc-holdings-corp-for-us-113-billion-300217218.html>

1 percent to 72 percent, increased rate base growth opportunities, and continuation of
2 growth by acquisition (9th acquisition since 2009).³²

3 **Q. Please describe your understanding of the proposed transaction before the**
4 **Commission in this docket.**

5 A. First, I note that ENMAX has stated dollar references in its testimony as U.S. dollars
6 “based on the May 3, 2019 USD\$/CAD\$ exchange rate of 1.342 (Source:
7 Bloomberg).”³³ Second, for convenience, “Emera Maine” will be used throughout
8 this testimony recognizing that the Emera Maine operation will be renamed following
9 closing of the proposed transaction. ENMAX and Emera structured a sale of Emera
10 Maine to ENMAX through a Purchase and Sale Agreement (“PSA”) between two of
11 their subsidiaries – (respectively) Emera US Holdings Inc. (“EUSHI”) and 3456, Inc.
12 (which was created as a U.S. corporation by ENMAX to accomplish the transaction)
13 – dated March 24, 2019. EUSHI on behalf of Emera will sell its BHE Holdings Inc.
14 affiliate, which holds Emera Maine and other affiliates, to 3456, Inc. Thus, the
15 proposed transaction is characterized by ENMAX as “a straightforward upstream
16 ownership change in the ownership of Emera Maine.”³⁴

17 Emera through its EUSHI affiliate will receive \$959 million for all its shares of BHE
18 Holdings Inc. This base purchase price will be subject to a working capital
19 adjustment calculated based on working capital balances at the closing date.
20 ENMAX through its purchasing affiliate will assume existing Emera Maine debt.
21 The PSA obliges ENMAX to rename Emera Maine within 60 days after closing to
22 discontinue use of the “Emera” name.³⁵

³²

<http://investors.algonquinpower.com/Cache/1500081220.PDF?O=PDF&T=&Y=&D=&FID=1500081220&iid=4142273>

³³ Manes Direct, footnote 1.

³⁴ Manes Direct at page 28, line 10.

³⁵ Joint Petition at paragraph 14.

1 ENMAX intends to continue to operate Emera Maine as a standalone utility with
2 corporate headquarters continuing to be in Bangor, Maine.³⁶ “ENMAX will cause
3 Emera Maine to continue to honor Emera Maine’s existing obligations under its
4 collective bargaining agreement.”³⁷ ENMAX does not intend to change employment
5 levels as a result of the transaction and is seeking to retain existing managers.
6 ENMAX intends to keep the same number of independent directors on the Emera
7 Maine board (independent of Emera Maine, ENMAX or other affiliates) including
8 continuing to have “a number of board members” with local ties.³⁸ ENMAX will
9 consider continuation of current independent directors “to preserve continuity.”³⁹
10 “ENMAX’s shareholder, The City of Calgary, will have no decision-making authority
11 regarding Emera Maine’s operations and management.”⁴⁰ ENMAX proposes
12 “governance and ring-fencing provisions to reinforce and ensure that Emera Maine
13 continues to be operated as a standalone utility with the full support of ENMAX.”⁴¹

14 In connection with the change of control, Emera Maine is obliged to offer to prepay
15 holders of senior notes at closing, and to obtain consent from revolving credit facility
16 lenders or prepay that outstanding debt at closing.⁴² ENMAX provided its analysis of
17 the likelihood of Emera Maine note holders requesting repayment under this
18 provision in response to ODR 3-14. ENMAX will not seek recovery from Emera
19 Maine customers of any portion of the accounting for “goodwill” or the acquisition
20 adjustment associated with the proposed transaction or any transaction fees or costs
21 associated with it.⁴³ ENMAX intends to maintain the separate rate structures of
22 Emera Maine’s two districts (Bangor Hydro and Maine Public District) and ENMAX

³⁶ Joint Petition at paragraph 10.

³⁷ Joint Petition at paragraph 30.

³⁸ Joint Petition at paragraph 11.

³⁹ Joint Petition at paragraph 32.

⁴⁰ Joint Petition at paragraph 31.

⁴¹ Manes Direct at page 10, line 3.

⁴² Joint Petition at paragraph 13.

⁴³ Joint Petition at paragraph 22. ENMAX’s proposed definition of “transaction costs” is reasonably inclusive from a regulatory standpoint, at a general level.

1 would only propose merging these rate structures after thorough evaluation with
2 stakeholders.⁴⁴

3 **Q. How will intercompany services presently provided by Emera affiliates to**
4 **Emera Maine be supported by ENMAX following closing of the proposed**
5 **transaction?**

6 A. Affiliate services presently “represent approximately \$1.5 million annually or
7 approximately 1.0% of the total [Emera Maine] revenue requirement.”⁴⁵ ENMAX
8 states it “intends to transition all Emera Maine affiliate services from Emera to
9 ENMAX or a third-party at closing but has backstops in place if this cannot be fully
10 completed by the closing of the Proposed Transaction.”⁴⁶ Perhaps the primary
11 backstop is a Transition Services Agreement included in the PSA under which
12 ENMAX can elect to have Emera provide selected intercompany services for an
13 interim period not to exceed 180 days following the closing date. These transitional
14 services would be provided under the same terms and conditions, including pricing.⁴⁷
15 ENMAX anticipates that it or an affiliate “will provide most of the services presently
16 provided by Emera on a going forward basis on terms and conditions, including
17 pricing, that are anticipated to be substantially similar to the current fees and charges
18 for such services.” Due to the geographic distance between ENMAX and Emera
19 Maine, ENMAX anticipates some services may be provided by third-party service
20 providers. ENMAX states all agreements for such services whether through
21 ENMAX or its affiliates, or a third-party service provider “including the methodology
22 for calculating the costs of any such services, shall be subject to the review and
23 approval of the Commission.”⁴⁸

⁴⁴ Joint Petition at paragraph 24.

⁴⁵ Wesley Direct Testimony on behalf of ENMAX, at page 16, line 5.

⁴⁶ Manes Direct at page 27, line 11.

⁴⁷ Joint Petition at paragraph 25.

⁴⁸ Joint Petition at paragraph 26.

1 **Q. What benefits does ENMAX aver will occur from the proposed transaction?**

2 A. ENMAX claims “clear benefits”⁴⁹ from the proposed transaction, which may be
3 summarized as follows:

- 4 • Enhancement of withdrawal of Emera Maine’s proposed 17.75 percent rate
5 increase by further ENMAX commitment to a “stay out” provision that no
6 “distribution base rate increase that would be effective prior to January 1,
7 2021”⁵⁰ will be filed.
- 8 • The ENMAX commitment to work with stakeholders “to propose and shape
9 a plan for an ARP.”⁵¹
- 10 • The ENMAX commitment to provide shareholder-funded incentives totaling
11 up to \$5 million over five years for programs agreed upon with stakeholders
12 (such as transition from fuel-oil heating to heat pumps, economic
13 development programs, or others as may be agreed), and to increase
14 “community investments” by 10 percent from Emera’s previous levels.⁵²
- 15 • “Benefit from ENMAX’s expertise in operating in a complex and competitive
16 environment” and “benefit from shared experiences and best practices.”⁵³
- 17 • The proposed commitments and conditions “will create other benefits and
18 protections for Emera Maine’s customers”.⁵⁴

19 **Q. When do the transaction parties expect the proposed transaction to close?**

20 A. At the time of the submission of the Joint Petition the parties expected “to achieve a
21 Closing Date in late 2019.”⁵⁵

⁴⁹ Barrett Direct Testimony on behalf of ENMAX, at page 5, line 16.

⁵⁰ *Ibid.* at page 5, line 21. See also, Exhibit GM-2 to the Manes Direct.

⁵¹ *Ibid.* at page 5, line 27. See also, Exhibit GM-2 to the Manes Direct Testimony on behalf of ENMAX. This commitment is subject to the caveat that “Year One” rates to which the ARP would apply would first be “rebased” via revenue requirement determination in a rate case. Manes Direct Testimony, page 8, line 22.

⁵² *Ibid.* at page 5, line 29. See also, Exhibit GM-2 to the Manes Direct.

⁵³ Manes Direct, at page 7.

⁵⁴ *Ibid.* at page 8, line 4.

⁵⁵ Joint Petition at paragraph 15.

Valuation of Emera Maine

Q. Please describe the process ENMAX used for valuation of the Emera Maine enterprise for purposes of calculating its bid range.

A. ENMAX and its financial advisors used typical financial valuation methods including discounted cash flow (“DCF”) analysis and reference to “comparable” transactions in determining what it believed Emera Maine was worth for purposes of its bidding and bid strategy. DCF analysis provides the most theoretically correct valuation estimate for an asset or company as it brings back to present value the future cash flows of that asset or company. DCF analysis requires financial inputs for financial modeling⁵⁶

[BEGIN PO5 CONFIDENTIAL]

[END PO5 CONFIDENTIAL]

⁵⁶ ENMAX Response to ODR 3-3, PO5 Confidential.

1 **Q. Please describe the valuation of Emera Maine as reflected in the bids received**
2 **by Emera.**

3 A. Emera provided its documentation on this subject in response to EXM 2-1 under the
4 provisions of Protective Order 6, which restricts this information only to the
5 Commission and its staff, and the OPA. According to Attachments I and J,

6 **[BEGIN PO6 CONFIDENTIAL]** [REDACTED],

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED].

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED] END PO6 CONFIDENTIAL]

Financing the Proposed Transaction

10 **Q. Please describe ENMAX’s planned financing for the transaction.**

11 A. ENMAX plans an all-cash transaction.⁵⁷ As an interim financing measure for
12 purposes of providing a bid to Emera without a financing condition, ENMAX
13 obtained committed transaction financing facilities from Canadian Imperial Bank of
14 Commerce (“CIBC”), who is also ENMAX’s financial advisor in the proposed
15 transaction.⁵⁸ ENMAX intends to use permanent financing consisting of a mix of

⁵⁷ Wesley Direct Testimony (Wesley Direct) filed on behalf of ENMAX, page 3, line 3.

⁵⁸ Wesley Direct at pages 4 – 5.

1 private notes and syndicated bank credit facilities since private notes are “a more
2 cost-effective means of financing. The private notes would be issued closer to the
3 anticipated closing date” and would be ENMAX obligations not Emera Maine
4 obligations.⁵⁹ ENMAX has since stated⁶⁰ **[BEGIN PO5 CONFIDENTIAL]**

5 [REDACTED]

6 [REDACTED]

7 [REDACTED] **END PO5**
8 **CONFIDENTIAL]**

9 **Q. What has ENMAX stated regarding credit ratings in the context of the**
10 **proposed transaction?**

11 A. ENMAX states at present it “enjoys strong issuer credit ratings from Standard &
12 Poor’s (BBB+) and DBRS (A (low)) credit rating agencies.”⁶¹ “ENMAX is
13 committed to maintaining an investment-grade rating through and after completion
14 of the Proposed Transaction.”⁶² “Immediately following the announcement of the
15 Proposed Transaction, the credit rating agencies issued preliminary reviews of the
16 impact of the Proposed Transaction on ENMAX’s credit rating. As anticipated given
17 the increase in ENMAX debt required to finance the Proposed Transaction,
18 ENMAX was placed on negative watch by its rating agencies.”⁶³ ENMAX states that
19 “even if ENMAX’s credit ratings are downgraded, ENMAX would still maintain an
20 investment grade credit rating.”⁶⁴

21 **Q. What has Emera stated regarding credit ratings for Emera Maine?**

⁵⁹ Wesley Direct at page 6, line 28.

⁶⁰ Transcript, Technical Conference, August 14, 2019, In Camera under Protective Order 5, page 43, line 21.

⁶¹ Manes Direct at page 6, line 23.

⁶² Wesley Direct at page 6, line 22.

⁶³ Wesley Direct at page 9, line 2.

⁶⁴ Id., at line 20.

1 A. At present Emera Maine does not have a formal credit rating.⁶⁵ Emera indicates⁶⁶

2 [BEGIN PO2 CONFIDENTIAL] [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED] [END PO2 CONFIDENTIAL]

7 **Q. Why are investment grade credit rating important for a public utility?**

8 A. The investment grade portion of the S&P credit rating spectrum ranges from the
9 highest rating – “AAA” – to the lowest investment grade rating of “BBB-”. An
10 investment grade credit rating for a public utility is important because public utilities
11 are capital intensive by their nature and such capital investment requires funding.
12 Capital investment is funded through internally generated funds, customer
13 contributions in aid of construction, and issuance of equity and debt. Reasonable
14 access to debt and equity is required to ensure capital investment can be made when
15 needed to serve the public, expand public utility systems and provide for facilities
16 replacement, and to provide for just and reasonable rates because the costs of debt
17 and equity are recovered through rates charged to consumers. Credit ratings are a
18 forward-looking assessment of the risk the borrower will not make full and timely
19 principal and interest payments and thus be in default of the loan or debt agreement
20 with the lender. Non-investment grade credit ratings are assigned to borrowing,
21 which is more speculative in nature, with a higher risk of default. Higher interest
22 rates are charged for borrowing by higher risk borrowers and in the case of default
23 and bankruptcy funds are not available for normal borrowing no matter the interest
24 rate.

⁶⁵ Wesley Direct at page 6, line 24.

⁶⁶ Emera Response to EXM 2-1, Attachment C, at page 71.

1 **Q. What is the impact of the borrowing necessary to fund the proposed**
2 **transaction on ENMAX's financial position and how is it measured?**

3 A. Credit rating agencies and financial covenants used by lenders typically reference a
4 financial ratio, which calculates long term debt to earnings before interest, taxes,
5 depreciation and amortization ("EBITDA"). ENMAX has used its financial
6 projections for the proposed transaction to calculate this financial metric for
7 consideration in its decision making. The comparison of the debt-to-EBITDA ratio
8 with and without the proposed transaction⁶⁷ is:

9 **[BEGIN PO5 CONFIDENTIAL]**

10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED] **END PO5 CONFIDENTIAL]**

15 **Q. How does ENMAX expect to pay down the debt incurred to fund the**
16 **proposed transaction?**

17 A. ENMAX plans to improve its debt metrics (i.e., debt/EBITDA ratio) "based on a
18 focused and disciplined debt reduction plan, whereby free cash flows from other
19 parts of ENMAX's business will be used to quickly pay down debt."⁶⁸ ENMAX

⁶⁷ EXM 1-3, Attachment 7, pages 87-88, PO5 Confidential.

⁶⁸ Wesley Direct at page 9, line 10.

1 expects to pay down⁶⁹ the transaction debt [BEGIN PO5 CONFIDENTIAL]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED] [END PO5 CONFIDENTIAL]

6 ENMAX provided a discussion of the [BEGIN PO5 CONFIDENTIAL] [REDACTED]

7 [REDACTED]

8 [REDACTED] [END PO5 CONFIDENTIAL] in response to ODR 3-9 and

9 [BEGIN PO5 CONFIDENTIAL] [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED] [END PO5 CONFIDENTIAL] ENMAX conducted⁷⁰ a

13 [BEGIN PO5 CONFIDENTIAL] [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED] [END PO5 CONFIDENTIAL]

22 Q. What are the implications of this extensive use of debt at the ENMAX parent
23 level to fund purchase of Emera Maine's equity at a premium?

⁶⁹ Transcript, Technical Conference, August 14, 2019, In Camera under Protective Order 5, page 50, line 21.

⁷⁰ ENMAX Response to EXM 1-3, Attachment 13 at page 11. PO5 Confidential.[BEGIN PO6 CONFIDENTIAL]
[REDACTED].[END PO6 CONFIDENTIAL]

1 A. Use of debt to finance substantially all the acquisition, at a premium, is a leveraged
2 buy-out approach and is subject to all the risks of extensive leverage. The use of
3 financial leverage cuts two ways and will create non-discretionary cash demands for
4 ENMAX to pay interest and principal. This cannot be allowed to impede required
5 spending by Emera Maine on its public utility responsibilities to maintain, improve
6 and extend service. It is important that approval of this proposed transaction be
7 conditioned on commitments to maintain capital expenditure levels and increase such
8 capital expenditures as necessary, as per Larry Holloway's analysis in his direct
9 testimony. Also, as recommended by Mr. Holloway, the Commission should require
10 ENMAX to complete a thorough review of the Emera Maine capital budget program
11 for the Company and the Commission. This will ensure that there is a common
12 understanding of the capital needs for Emera Maine to be funded internally or
13 externally as required. Furthermore, operational spending levels should be
14 maintained unless the ability to maintain service quality at lower spending levels is
15 demonstrated. Emera Maine should be insulated from any pressure to make
16 upstream distributions or dividends of cash out of Maine operations due to the need
17 to service ENMAX's interest and principal payments because of the leveraged buy-
18 out approach to the transaction.

19 ENMAX states "the transaction-related goodwill will be recorded and remain solely
20 on the books of ENMAX. Transaction-related goodwill will have no impact on
21 Emera Maine, its balance sheet, capital structures, cost of service or customers'
22 rates."⁷¹ The fact that ENMAX will record no goodwill for accounting purposes on
23 Emera Maine's books is appropriate for regulatory purposes here in Maine. But it
24 does not eliminate the fact that ENMAX has taken on substantial debt to pay this
25 premium for which it will have no rate support to pay back the related debt, which
26 must still be serviced. Again, Emera Maine should be insulated from any pressure to

⁷¹ Wesley Direct at page 11, line19.

1 make upstream distributions or dividends of cash out of Maine operations due to
2 needs to service ENMAX's interest and principal payments because of the leveraged
3 buy-out approach to the transaction.

4 **Q. How does ENMAX propose to address the regulatory concern that increased**
5 **debt leverage can increase the cost of capital for ratemaking purposes?**

6 A. ENMAX offers a commitment that "the Proposed transaction will have no adverse
7 effect on Emera Maine's cost of capital for ratemaking purposes."⁷² This is a good
8 general commitment but lacks details and specifics on how it would be calculated and
9 implemented in a rate case setting. The "hold harmless" level should be calculated in
10 advance to avoid unnecessary issues that could arise if this was left to be addressed
11 during the next rate proceeding.

12 **Q. Please describe the "ring-fencing" provisions proposed by ENMAX.**

13 A. ENMAX proposes "governance and ring-fencing provisions to reinforce and ensure
14 that Emera Maine continues to be operated as a standalone utility with the full
15 support of ENMAX."⁷³ ENMAX proposes three ring-fencing provisions:

- 16 • Commitment 18, prohibition of Emera Maine filing for bankruptcy without
17 the consent of a majority of the independent directors of Emera Maine as well
18 as the independent director of BHE Holdings (or any substitute special
19 purpose entity);
- 20 • Commitment 19, notification of the Commission in the event of ENMAX or
21 any of its affiliates filing for bankruptcy; and,
- 22 • Commitment 20, "Within ninety (90) days of the closing of the Proposed
23 Transaction, ENMAX and Emera Maine will file a non-consolidation opinion
24 with the Commission which concludes, subject to customary assumptions and
25 exceptions, that the ring-fencing provisions are sufficient that a U.S. or

⁷² "Hold Harmless" commitment, No. 7, Exhibit GM-2 to Manes Direct.

⁷³ Manes Direct at page 10, line 3.

1 Canadian bankruptcy court should not order the substantive consolidation of
2 the assets and liabilities of Emera Maine with those of ENMAX or ENMAX's
3 affiliates or subsidiaries."

4 **Q. Please address "synergies," which are generally associated with mergers and**
5 **acquisitions.**

6 A. The concept of synergies often arises in mergers and acquisitions where efforts are
7 made by acquirors to identify and quantify synergy opportunities that will result in
8 better financial performance – higher profitability – whether from increased
9 revenues, better use of technology and human capital, or reduced expenses and costs.
10 However, expected synergies – the concept that combining two companies can
11 produce financial results that are better than what either could have achieved alone –
12 did not have any role in driving the proposed acquisition. "The Proposed
13 Transaction is not predicated on achieving synergistic cost savings."⁷⁴ Synergies

14 **[BEGIN PO5 CONFIDENTIAL]** [REDACTED]

15 [REDACTED]. **[END PO5 CONFIDENTIAL]**

16 Accordingly there is no need in this case to address synergies estimations or
17 implications from the source of synergies – i.e., reductions in employee levels.
18 Regulators often are concerned with proposed merger/acquisition synergies that
19 result from elimination of employees for fear that service delivered to utility
20 consumers will suffer. Management and employee costs are a very significant
21 proportion of utility operating cost so this is an area often examined by the acquiring
22 entity for reducing costs – reducing employee head count. This does not appear to
23 be an issue in this case given ENMAX's intention to operate its new Emera Maine
24 affiliate with existing employment levels in place, and continuation of the existing
25 management team to the extent possible.

⁷⁴ Joint Petition at paragraph 12. Also, no mention of synergies is made in the direct testimonies filed by ENMAX.

Assessing the Proposed Transaction

Q. What assurance can the consumers and the Commission have that ENMAX was able to fully assess the need for additional capital expenditures for system enhancements and system reliability?

A. I do not believe it was possible for ENMAX to have conducted a full assessment without full access to the Emera Maine system, management and personnel and records – which access a buyer does not typically have prior to closing. Any acquiror, including ENMAX, is generally not able to gain full access to system assets and operating personnel to accomplish a complete assessment – acquirors do not get the keys to the enterprise until the transaction is consummated. Accordingly, the expert advisor – METSCO – hired by ENMAX to evaluate Emera Maine’s operations and assets stated

In performing our work, METSCO relied on documentation provided by Emera Maine in the project’s online Data Room, along with certain public documents pertaining to Emera Maine, and the results of our in-person interviews and field spot inspections conducted on February 11, 2019. While our review spanned approximately 200 documents of various types, the vast majority of information in our possession amounts to third-party accounts by external parties retained by Emera Maine and the Target Company’s own presentations, reports and regulatory submissions. Notwithstanding the value of these documents, absent have been the primary (raw) sources of asset and operating data, such as databases, manuals, inspection forms, and other operating documents that we typically rely on when making conclusions regarding the state of a given utility’s operations. As such, we encourage ENMAX to treat our inferences and conclusions as the best efforts given the quality of source data at our disposal.⁷⁵

In Larry Holloway’s testimony on behalf of the OPA, he also found difficulty in fully assessing needs for Emera Maine capital expenditures assuming the transaction is consummated, which makes it difficult to “plan, scope, prioritize and implement the

⁷⁵ ENMAX Supplemental Response to EME 2-5, Attachment 3, at page 7.

1 most cost effective plan to improve system reliability.”⁷⁶ Mr. Holloway found a
2 significant variation in capital expenditure estimations and created a “worst-case
3 Emera Maine capital expenditures” level, which includes the high end of METSCO’s
4 capex range, one time and annual costs of enhancing Emera Maine’s asset
5 management system, and extraordinary storm restoration costs for distribution and
6 transmission systems.⁷⁷

7 **Q. How would difficulty in fully assessing capital expenditure needs for Emera**
8 **Maine affect ENMAX’s financial modeling for valuation purposes?**

9 A. ENMAX points out⁷⁸ that [BEGIN PO5 CONFIDENTIAL] [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED] [END PO5
17 CONFIDENTIAL]

18 **Q. How would difficulty in assessing capital expenditure needs for Emera Maine**
19 **affect ENMAX’s ability to execute its debt reduction plan?**

20 A. Larry Holloway’s analysis suggests that ENMAX is exposed to the possibility that
21 capital expenditures required for reliability and enhancement of the Emera Maine
22 system could be significantly more than projected. All dollars of capital expenditure
23 required over and above the pre-transaction annual capital expenditure levels

⁷⁶ Direct Testimony of Larry Holloway on behalf of the Maine Office of the Public Advocate at page 43.

⁷⁷ Direct Testimony of Larry Holloway on behalf of the Maine Office of the Public Advocate at Table 13.

⁷⁸ ENMAX Response to ODR 3-3, PO5 Confidential.

1 projected by ENMAX and Emera Maine would subtract from dollars available for
2 the ENMAX debt reduction plan. This subtraction of dollars from the debt reduction
3 plan would defer the date at which ENMAX is able to return to pre-transaction
4 financial and credit metrics. It would also increase ENMAX's need to have a
5 stakeholder, financial and operating plan developed to deal with that possibility and
6 support the implied additional rate increases once it is responsible as the ultimate
7 owner of Emera Maine.

8 **Q. Following closing of the proposed transaction what role will ENMAX have in**
9 **Emera Maine's capital plan?**

10 A. ENMAX states it "believes that capital spending and management decisions are best
11 made at the local level."⁷⁹ It is not clear what guidelines and requirements ENMAX
12 will direct or administer regarding local planning for Emera Maine capital expenditure
13 planning and programs. Accordingly, Larry Holloway recommends conditions
14 regarding Capex Budget review in his testimony on behalf of the OPA.

15 **Q. Will the use of BHE Holdings (or any substitute special purpose entity⁸⁰)**
16 **"ring-fence" Emera Maine from any ENMAX financial distress, and prevent a**
17 **bankruptcy court from bringing Emera Maine into any future ENMAX**
18 **bankruptcy proceeding?**

19 A. First, I am not an attorney, and this does not constitute a legal opinion. I am advised
20 by counsel that the ability of ENMAX to secure such a non-consolidation opinion in
21 the first place is not assured. As I understand it, the Non-Consolidation Opinion is
22 not something that can be sought in advance for review by regulators. Assuming
23 such a Non-consolidation Opinion can be obtained I am also advised by counsel that

⁷⁹ Manes Direct at page 24, line 16.

⁸⁰ Manes Direct at page 26, line 8.

1 it will not necessarily have any binding effect on what a bankruptcy judge finds and
2 orders at the time of any future bankruptcy proceeding.

3 **Conclusion and Recommendations**

4 **Q. What is the standard for approval of a proposed utility reorganization before**
5 **the Maine Public Utilities Commission?**

6 A. Per the recently enacted P.L. 2019, chapter 353, which amended 35-A M.R.S. §
7 708(2), the Commission may not approve a reorganization that results in the transfer
8 of ownership and control of a public utility, or its parent company, “unless it is
9 established by the applicant for approval that the reorganization provides net benefits
10 to the utility’s ratepayers.” Therefore, I conducted my review to ascertain the extent
11 to which the proposed transaction provides net benefits to Emera Maine’s ratepayers.

12 **Q. Have the Joint Applicants established that the proposed reorganization**
13 **provides net benefits to Emera Maine’s ratepayers?**

14 A. No, not within the transaction as proposed at present. Unless there are significant
15 further protections or conditions put in place to provide tangible measures to address
16 the financial risks created by the proposed transaction and the Emera Maine
17 operational concerns partially illuminated by ENMAX’s due diligence (as explained
18 by Larry Holloway), it is not clear that there would be a net benefit to
19 ratepayers. Without such further protections or conditions any benefits from the
20 transaction are minimal and generally intangible and would be outweighed by the
21 risks from increased debt load, any further credit downgrades, interest rate risks and
22 increased borrowing costs as well as continuation of known operational concerns.
23 Benefits from synergies reducing costs for Emera Maine are not part of the
24 underlying rationale for the proposed transaction. Analysis of the valuation and
25 bidding information from Emera’s response to EXM 2-1 **[BEGIN PO6**

1 **CONFIDENTIAL]** **END PO6**
2 **CONFIDENTIAL]**

3 **Q. What types of further protections or conditions should be put in place prior to**
4 **considering the proposed transaction for approval?**

5 A. The Commission should adopt the conditions recommended by Larry Holloway in
6 his testimony on behalf of the OPA. Additional conditions should address:

- 7 1. Augmenting ENMAX's proposed commitments 7 and 22 regarding "hold
8 harmless" on Emera Maine's cost of capital for ratemaking purposes to
9 include specifics on how the commitment will be accomplished and
10 implemented, i.e., what is the "going in" "hold harmless" calculation;
- 11 2. Augmenting ENMAX's proposed commitment 19 regarding notification
12 of the Commission if ENMAX or any of its affiliates file for bankruptcy
13 protection to include specific timeframes for such notifications and other
14 details;
- 15 3. Providing a report to the Commission within 60 days of closing the
16 transaction regarding the transition of intercompany services from Emera
17 to ENMAX, including details on what entities are providing the various
18 required intercompany services, which services are being provided under
19 the transition services agreement with Emera, and other related details
20 including costs and agreements as associated with commitments 30 – 32;
- 21 4. Providing that a majority of the Emera Maine Board of Directors will
22 reside in the New England Region and be independent under NYSE rules
23 for independent directors.
- 24 5. Augmenting ENMAX's proposed commitment 11 regarding employment
25 levels to include an actual commitment;

- 1 6. Additional conditions regarding credit matters including notifications to
- 2 the Commission regarding credit events such as downgrades, timely
- 3 provision of credit rating agency reports to the Commission, and regular
- 4 filing by ENMAX of financial covenants compliance certificates under
- 5 appropriate protective order until transaction debt is paid down as planned
- 6 by ENMAX;
- 7 7. Additional conditions regarding notifications to the Commission regarding
- 8 ENMAX investments in entities, which exceed a defined limit such as 10
- 9 percent of capitalization;
- 10 8. Additional conditions regarding limitation of distributions or dividends
- 11 upstream to a defined percentage of Emera Maine net income;
- 12 9. Additional conditions regarding submission to the Commission of a
- 13 comprehensive plan and cost allocation manual for intercompany services
- 14 and transactions with affiliated entities;
- 15 10. Additional conditions regarding provision to the Commission of any
- 16 administratively final rulings or decisions finding violations by ENMAX or
- 17 any related party resulting in penalties above USD\$1 million per event;
- 18 and,
- 19 11. Any other conditions the OPA may believe to be necessary.

20 **Q. Could the Office of the Public Advocate support Commission approval of the**
21 **proposed transaction with further protections and conditions?**

22 A. Yes. OPA will work with the Joint Applicants on specifying further protections and
23 conditions.

24 **Q. Does this conclude your direct testimony?**

25 A. Yes.